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Before the  
FEDERAL COMMUNICATION COMMISSION  
Washington, D.C. 20534

AUG - 3 1998

In the Matter of )  
  
1998 Biennial Regulatory Review- ) CC Docket No. 98-81  
Review of Accounting and Cost )  
Allocation Requirements )  
  
United States Telephone Association ) ASD File No. 98-64  
Petition for Rulemaking )

**REPLY COMMENTS OF AMERITECH**

**I. INTRODUCTION AND SUMMARY**

The Comments filed in this proceeding demonstrate that the Commission's accounting and cost allocation rules are no longer necessary in the public interest, and that streamlining and eventual elimination of the current regulations for all carriers is mandated by Section 11 of the Communications Act of 1934, as amended. The proposals put forth in the Arthur Andersen Paper should be adopted now; specifically, the adoption of Class B accounting and other proposals, including the elimination of the expense matrix, reduction of the continuing property record requirements, and simplification of the valuation standards used for affiliate transactions.<sup>1</sup> Exclusive reliance on Generally Accepted Accounting Principles (GAAP) for all carriers should be the Commission's ultimate objective, since GAAP provides a consistent and effective means to benchmark and monitor financial results. Alternatively, the retention of the Class A account structure with

<sup>1</sup> See Ex Parte filed July 15, 1998, "Accounting Simplification in the Telecommunications Industry" prepared by Arthur Andersen LLP, "the Arthur Andersen Paper."

the proposed modifications set forth by Ameritech in its comments should be adopted as a bare minimum and only as an interim step.<sup>2</sup>

## **II. THE PROPOSED RATIONALE FOR RETAINING CLASS A ACCOUNTING REQUIREMENTS FOR THE LARGE ILECs AND GTE HAS NO SUPPORT**

The parties' comments failed to support the NPRM's stated justifications for retaining the Class A accounting requirements and cost allocation requirements for the largest incumbent LECs. Neither the higher volume of transactions of the large incumbent LECs, statutory obligations under 254(k) or other sections of the Telecommunications Act of 1996, potential cost misallocations, or a benefit/burden test withstand scrutiny.

Ameritech and others clearly demonstrated that mid-sized LECs actually have a higher dollar value of affiliate transactions to their total operations which is contrary to the supposition in the NPRM.<sup>3</sup>

There are likewise no statutory obligations that require or suggest a Class A account level is necessary. Rather, with mandatory no-sharing price cap regulation in the federal jurisdiction the incentive and ability to cross-subsidize competitive services is eliminated.<sup>4</sup> Moreover, the 254 (k) prohibitions against cross-subsidy apply to all carriers, including CLECs. It is incongruent for the Commission to propose a more stringent level of detail on the large incumbent LECs who, under no-sharing price cap regulation, have neither the incentive nor ability to cross-subsidize.<sup>5</sup> A reasoned analysis suggests that an arbitrary revenue threshold is not an appropriate trigger in determining the level of

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<sup>2</sup> See Comments of Ameritech at 3

<sup>3</sup> See Comments of Ameritech at 5, USTA at 8, SBC at 9

<sup>4</sup> See Comments of BellSouth at 8-9, Bell Atlantic at 4-5

<sup>5</sup> See Comments of BellSouth at 9-11

accounting and cost allocation detail required. Rather, there are other factors that should weigh more heavily in determining the amount of accounting recordkeeping that is appropriate, i.e., no-sharing price regulation.

With respect to potential cost misallocations, Ameritech showed on Attachment 4 to its Comments that a Class B level reduces the administrative requirements without compromising the cost causation principles of the Commission's cost allocation rules. Accuracy in cost allocations and the requirement to segregate costs in homogeneous cost pools does not necessitate a Class A account structure. Attachment 4's illustration shows that, by retaining the Class A cost pool apportionment bases under a Class B accounting structure, the same level of cost causation accuracy is achieved while eliminating the Class A accounting structure. Under a Class B account structure, the cost pool apportionments would be no less precise.

Finally, the Comments show that it is incorrect to minimize the burden associated with maintaining a Class A level account structure and other unnecessary requirements, such as the detailed continuing property record requirements, on a finding that the large incumbent LECs maintain a greater level of detail anyway. Arthur Andersen showed that for each area of proposed simplification --account structure and accounting requirements, property records and depreciation, affiliate transactions -- there are significant costs associated with the Class A level account detail. The large incumbent LECs have more employees and incur greater annual costs than is the industry norm.<sup>6</sup>

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<sup>6</sup> See the Arthur Andersen Paper at pages 20, 32, 43, 44. Similarly, GTE estimates that 20-25% of its general ledger implementation costs are attributable to Part 32 requirements. See Comments of GTE at 6; See also Comments of SBC at 22-24. Ameritech expects significant cost savings with the adoption of the Arthur Andersen proposals.

**III. MCI's COMMENTS FAIL TO ADEQUATELY SUPPORT THE  
CONTINUATION OF CLASS A ACCOUNTING AND CAM  
REQUIREMENTS FOR MID-SIZED OR LARGE LECs.**

MCI was the lone commenter generally opposing the NPRM's simplification proposals. MCI maintains that relaxation of the accounting and cost allocation rules, even for mid-sized LECs, is not justified because (i) mid-sized LECs are likely to engage in a higher level of nonregulated activity in the future, (ii) cost and revenue detail used in tariff investigations will be lost, (iii) Class A accounting detail allows the identification of potential cost misallocations, (iv) the Commission and state commissions have used Class A accounting detail "...to improve cost allocations, determine pole attachment fees, and estimate ILECs avoided costs of providing wholesale services,"<sup>7</sup> (v) tracking competitive changes in the local markets would be limited, (vi) the cost of maintaining Class A level detail is minimal because the Class A account structure has been in use for over a decade and carriers use Class A for management decision making and other purposes, (vii) public interest benefits in ensuring no cross-subsidy of nonregulated activities, and (viii) 254 (k)'s mandate prohibiting cross-subsidy of competitive services.

MCI's opposition to simplification with respect to the level of nonregulated activity, cost misallocations, pole attachments and Class A accounting costs simply restates the justification described in the NPRM, which Ameritech and other commenters have demonstrated does not support the retention of outdated and burdensome rules. Additionally, the level of nonregulated activity should not be the determining factor in determining the level of accounting and cost allocation detail to maintain. Rather, as

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<sup>7</sup> Comments of MCI at 4

previously discussed, no-sharing price cap regulation and the incentive and ability to cross-subsidize are more significant factors in determining the amount of accounting detail that is appropriate.

With respect to the need for Class A level detail for tariff investigations, the instance cited by MCI pertains to the reasonability of interstate billed toll messages by comparing interstate billed toll messages to interstate billing service revenues. The analysis however, depends on interstate billing and collection revenue which is a Part 36 separations result. The analysis could be completed using Class B accounting detail and separations.<sup>8</sup>

With respect to the discretionary use of Class A detail by state regulators<sup>9</sup> for estimating carriers avoidable costs for wholesale services, in those limited instances where selected accounting detail may be useful, states could require companies to provide it. The provision of specific selected detail is little justification however, for this Commission maintaining the entire Part 32 superstructure.

Lastly, with respect to the need for Class A detail for monitoring competition, the Commission recently initiated comment on a routine survey to assess competition of local exchange and exchange access. Class A level accounting detail and cost allocation data is neither needed, useful, or proposed for purposes of this report.<sup>10</sup>

#### **IV. CONCLUSION**

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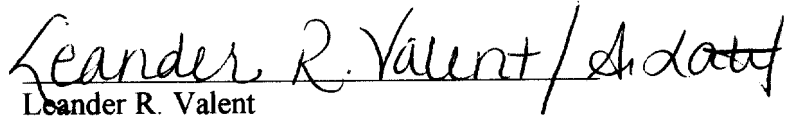
<sup>8</sup> See In the Matter of 1997 Annual Access Tariff Filings, CC Docket 97-149, Memorandum Opinion and Order, released December 1, 1997, at paragraph 183

<sup>9</sup> Contrary to MCI's implication, the determination of avoided retail costs is no longer made by the Commission, and 47 CFR §51.609 has been vacated by the Eighth Circuit Court of Appeals

<sup>10</sup> See Public Notice, DA 98-839, Common Carrier Bureau Seeks Comment on Local Competition Survey, released May 8, 1998

For the foregoing reasons, the justifications in the NPRM for retaining the Class A level of accounting and cost allocation detail for large incumbent LECs do not withstand scrutiny. The Commission should adopt the simplification proposals contained in the Arthur Andersen Paper now or, as an interim step, retain the Class A structure with the modifications proposed by Ameritech.

Respectfully submitted,

A handwritten signature in dark ink, reading "Leander R. Valent / A. Latt". The signature is written in a cursive, flowing style.

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Dated August 3, 1998

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